

Lothian Valuation Joint Board

Annual Audit Plan



 AUDIT SCOTLAND

Prepared for Lothian Valuation Joint Board
April 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 audit of Lothian Valuation Joint Board (LVJB). The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Performance Report, the Annual Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: concluding on the financial sustainability of Lothian Valuation Joint Board and a review of the Annual Governance Statement
- consideration of Best Value arrangements
- provision of an Independent Auditor's Report expressing an opinion on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

Respective responsibilities of the auditor and Lothian Valuation Joint Board

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the Lothian Valuation Joint Board. Key responsibilities are summarised below.

Auditor responsibilities

3. Our responsibilities as appointed auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at the Lothian Valuation Joint Board. In doing this, we aim to support improvement and accountability.

5. The appointed auditor, and engagement lead, for Lothian VJB is Christopher Gardner, Senior Audit Manager.

Lothian Valuation Joint Board's responsibilities

6. Lothian Valuation Joint Board is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

7. The Lothian Valuation Joint Board has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. We add value by: tailoring audit work to the circumstances of the Lothian Valuation Joint Board and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Board; and by recommending and encouraging good practice. In so doing, we will help the Lothian Valuation Joint Board promote improved standards of governance, better management and decision making, and more effective use of resources.

9. The Code of Audit Practice included provisions relating to the audit of less complex bodies. Where the application of the full wider scope is judged by auditors not to be appropriate to an audited body, then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

10. We plan to apply the less complex body provision of the Code to the 2023/24 audit of Lothian Valuation Joint Board. This is based on our assessment of LVJB complying with both the quantitative and qualitative criteria for defining less complex bodies.

Annual accounts

Introduction

11. The annual accounts are an essential part of demonstrating the Lothian Valuation Joint Board's stewardship of resources and its performance in the use of those resources.

12. Appointed auditors are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

13. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

15. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Lothian Valuation Joint Board are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for Lothian Valuation Joint Board

| Materiality | Amount |
|--|----------|
| Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Lothian Valuation Joint Board's operations. For the year ended 31 March 2024, we have set our materiality at 1.5% of gross cost of services expenditure based on the audited financial statements for 2022/23. | £110,000 |

| | |
|--|---------|
| Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality. | £71,000 |
| Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. | £5,500 |

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

- 16.** Our risk assessment draws on our cumulative knowledge of the Lothian Valuation Joint Board, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.
- 17.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.
- 18.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

| Significant risk of material misstatement | Management's sources of assurance | Planned audit response |
|--|---|--|
| <p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p> | <p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p> | <ul style="list-style-type: none"> • Test journal entries with a focus on significant risk areas. • Consider any unusual material transactions identified through our audit testing for any evidence of management override of controls. |

| Significant risk of material misstatement | Management's sources of assurance | Planned audit response |
|---|-----------------------------------|--|
| otherwise appear to be operating effectively. | | <ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Review accounting estimates for evidence of management bias including assessing any changes to the methods and underlying assumptions used. |

Source: Audit Scotland

19. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

20. We have rebutted this risk as while the possibility of fraud exists, we assess the risk of the financial statements being materially misstated as a result of fraud to be low. This is due to the nature of the joint board's revenue streams and key sources of income, namely government grants and the constituent councils' contributions. These are clearly communicated and can be readily agreed to third party confirmations. We have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

21. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

22. We have rebutted this risk for the joint board as expenditure consists predominantly of staff costs, property costs and supplies and services. These are lower-risk areas which can be predicted due to their recurring nature, individual transactions can be controlled and mainly comprise low value items. We consider there to be limited incentive and opportunity for the manipulation of expenditure recognition.

23. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Wider Scope and Best Value

Introduction

24. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. These are: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

25. The Code of Audit Practice includes provisions relating to the audit of less complex bodies. Where the application of the full wider scope is judged by auditors not to be appropriate to an audited body, then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

26. We plan to apply the less complex body provision of the Code to the 2023/24 audit of Lothian Valuation Joint Board. Our wider scope work will therefore focus on the financial sustainability of the Board and the services that it delivers over the medium to long term, and the arrangements in place for securing best value.

Wider scope risks

27. We have identified significant risks in the wider scope areas set out in [Exhibit 4](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2023/24 wider scope risks

| Description of risk | Management's sources of assurance | Planned audit response |
|---|--|--|
| <p>Financial sustainability</p> <p>Funding from constituent councils has remained at the same level for several years and there is an increasing reliance on reserves to deliver a balanced budget.</p> <p>It is forecast that the unallocated general reserve will be reduced to nil at the end of 2024/25 and available reserves are not</p> | <ul style="list-style-type: none"> The joint board has requested an increased requisition from constituent councils as part of its 2024/25 budget. The joint board has a transformation programme in place which is identifying some cost savings. Sound budgetary control and monitoring arrangements. | <ul style="list-style-type: none"> Ongoing review of financial budget monitoring and reporting arrangements in place to achieve a balanced budget. Review of Lothian VJB's strategy to seek additional funding in the short to medium term. Continue to monitor the financial position throughout the year and provide an |

| Description of risk | Management's sources of assurance | Planned audit response |
|---|-----------------------------------|--|
| <p>anticipated to increase in future years (2025/26) and (2026/27).</p> <p>Shortfalls in the core budget in 2024/25, 2025/26 and 2026/27 are estimated to be £426k, £248k and £180k respectively.</p> <p>There is a risk that in the medium term, the joint board is not able to secure further funding to fully meet cost pressures as they arise.</p> | | <p>update in our 2023/24 Annual Audit Report</p> |

Source: Audit Scotland

28. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Best Value

29. Auditors have a duty to be satisfied that bodies that fall within section 106 of the Local Government (Scotland) Act 1973 have made proper arrangements to secure Best Value. We will consider how the Lothian Valuation Joint Board demonstrates that it is meeting its Best Value responsibilities, and we will report our findings as part of our Annual Audit Report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

31. We will provide:

- an Independent Auditor's Report to the Lothian Valuation Joint Board and the Accounts Commission setting out our opinions on the annual accounts
- the Lothian Valuation Joint Board and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

32. [Exhibit 5](#) outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

Exhibit 5 2023/24 Audit outputs

| Audit Output | Board Meeting Date |
|------------------------------|--------------------|
| Annual Audit Plan | 15 April 2024 |
| Independent Auditor's Report | 16 September 2024 |
| Annual Audit Report | 16 September 2024 |

Source: Audit Scotland



33. All Annual Audit Plans and the outputs detailed in [Exhibit 5](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

34. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management. We will continue to work closely with management to keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6

Proposed annual accounts timetable

|  Key stage |  Provisional Date |
|--|--|
| Consideration of the unaudited annual accounts by those charged with governance | 24 June 2024 |
| Latest submission date for the receipt of the unaudited annual accounts with complete working papers package | 30 June 2024 |
| Issue of Annual Audit Report to those charged with governance | 16 September 2024 |
| Signed Independent Auditor's Report | 16 September 2024 |

Source: Audit Scotland

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of the Lothian Valuation Joint Board and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £9,330 as set out in [Exhibit 7](#).

Exhibit 7

Audit fees (including VAT)

| Fee component | Fees (£) |
|-------------------------------|--------------|
| External Auditor Remuneration | 21,410 |
| Pooled costs | 780 |
| Sectoral Cap Adjustment | (12,860) |
| Total 2023/24 fee | 9,330 |

Source: Audit Scotland

36. In setting the fee for 2023/24, we have assumed that the Lothian Valuation Joint Board has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

37. It is the responsibility of the Lothian Valuation Joint Board to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

38. The appointed auditor for Lothian VJB is Christopher Gardner, senior audit manager. He was appointed by the Accounts Commission as external auditor of Lothian Valuation Joint Board for the period from 2022/23 until 2026/27. The appointed auditor is independent of the Lothian Valuation Joint Board in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

39. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

40. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the Lothian Valuation Joint Board.

Audit Quality

41. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

42. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to

high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

43. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

44. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

45. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Lothian Valuation Joint Board

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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